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C O N F I D E N T I A L CARACAS 001114

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E.O. 12958: DECL: 08/22/2024
TAGS: AFIN
SUBJECT: DOLLARIZATION OF LE STAFF SALARIES

Classified By: Ambassador Duddy, Reasons 1.4 (B) and (D)

¶1. (C) SUMMARY. Post requests Department permission to pay LE Staff in US dollars. Venezuela's rising inflation and fixed official exchange rate have eroded the purchasing power of LE staff. The continued decline in the standard of living of LE Staff has hurt morale, increased attrition, and created security vulnerabilities. In this context, many diplomatic missions in Venezuela have already shifted to paying local staff in foreign currency. Post recommends a waiver in order to pay local employees in dollars, a practice that would immediately increase LE staff purchasing power, reduce Post's security vulnerabilities, and potentially save the American taxpayer millions of dollars. This proposal has the unanimous and profound support of the ICASS Council and Country Team. End Summary.

VENEZUELA'S ECONOMIC CONTEXT

¶2. (U) The economic context in Venezuela is unique. Understanding this context, particularly the foreign exchange regime and high inflation, is essential to understanding why we are requesting approval to pay LE Staff in USD. Venezuela is one of the few countries in the world with a fixed official exchange rate and strict currency controls. The official rate has been fixed at 2.15 bolivars (Bs) per USD since the spring of 2005. A foreign exchange board, known by its Spanish acronym CADIVI, controls the rationing of USD at the official rate. Because the demand for USD is much higher than what CADIVI supplies, a parallel foreign exchange market has developed. The current parallel exchange rate in this market, which is considered legal under Venezuelan law when the transactions are undertaken by bond swaps, is 6.5 Bs per USD. Most international companies and organizations operating in Venezuela, including the USG, keep their books at the official rate; in other words bolivar transactions are recorded on the home organization's books in USD at 2.15 Bs per USD. (Note: While most Venezuelan subsidiaries of international companies are currently unable to receive USD from CADIVI at the official rate for purposes such as imports and dividend remittances, the USG is able to exchange visa fees received in bolivars for USD at the official rate. End note.)

¶3. (U) High inflation is the other relevant feature of Venezuela's economic context. To the best of our knowledge, Venezuela's inflation is the highest in Latin America and one of the highest in the world. From January 2005 through June 2009, accumulated inflation was 143 percent (i.e., prices more than doubled). Inflation was officially 31 percent in 2008, and most local analysts believe it will be around 30 percent in 2009. Venezuela's high inflation is severely eroding the purchasing power of salaried, middle and lower-middle class Venezuelans. Evidence for this erosion comes from the Venezuelan central bank's index of compensation for salaried workers.

INADEQUATE COMPENSATION HAS CONSEQUENCES FOR POST

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¶4. (C) Inflation has hit LE Staff far harder than the central bank's index might indicate. In the four years from October 2005 through September 2009, LE Staff will have lost 40 percent of their purchasing power, even using the official inflation measure. Looking forward, local wage increases under the fixed exchange rate cannot keep pace with inflation without substantial dollar cost increases for the Embassy. Post simply cannot afford to match local wage increases, let alone restore purchasing power to previous levels. For example, a 30 percent LE Staff compensation increase would cost Post over USD 1 million a year. Even if a smaller increase were authorized, Post might not be able to afford it, and certainly cannot afford expected authorized increases over the next several years.

¶5. (C) LE Staff have experienced a loss of purchasing power, and consequently, a decline in their standard of living. As the cost of services like health care and schooling continue to rise, LE Staff have been forced to dip into their savings of cover expenses: in 2008, 150 out of 190 total local employees withdrew money from their retirement package. The financial hardship suffered by LE Staff has negative consequences for post, specifically in terms of attrition, increased security vulnerabilities, and lower morale.

¶6. (C) Over the last four years, LE Staff attrition has averaged 10 percent, not including deceased employees. Post announces job vacancies multiple times, presumably beause the advertised wage does not generate suffiient interest. Between 2007 and 2009, Post adverised 44 vacancy announcements two or more times.

¶7. (C) Foreign intelligence services have seized on the deteriorating economic situation to exploit LE Staff; financial vulnerabilities offer hostile intelligence services considerable leverage to recruit informants. Over the past six months, Post has investigated two reported overtures to LE Staff by foreign intelligence services, a likely symptom of a larger trend.

¶8. (C) In addition to financial hardship and its consequences, LE Staff have suffered from harassment and discrimination due to their US Embassy employment. Some employees have taken a second job to supplement their income, but were fired when their second employer learned that they also worked for the Embassy. The names of some local employees appear on government blacklists that prohibit their employment with the Venezuelan government and limit their access to government services. One employee who was diagnosed with cancer was told by the Venezuelan Social Security Administration that he could not receive chemotherapy because he worked for the Embassy.

THE SOLUTION: PAY LE STAFF IN USD

¶9. (C) In light of these ongoing morale and security issues, Post requests permission to pay LE Staff in USD. Many foreign missions in Venezuela already compensate local employees in foreign currency, including the United Kingdom, Spain, Japan, Colombia, Morocco, Kuwait, Turkey, Saudi Arabia, and the European Union. Dollar compensation would immediately alleviate the economic and security pressures facing our local employees at no additional cost to the American taxpayer. LE Staff could exchange their dollars on the parallel exchange rate, substantially increasing their purchasing power. Dollar compensation would not only improve the standard of living for LE Staff, it would increase morale and reduce security vulnerabilities by making them less susceptible to counterintelligence threats and financial coercion. Under our proposal, the standard compensation review process would continue, but the Embassy would suspend salary adjustments indefinitely (hence saving taxpayer dollars), pending changes in the official and parallel exchange rates.

LEGALITY AND MECHANICS

¶10. (SBU) According to Section 408 of the Foreign Service Act, "To the extent consistent with public interest, each (local) compensation plan shall be based upon prevailing wage rates and compensation practices." In Venezuela, it is difficult to find empirical data on prevailing wage rates and compensations practices. Anecdotal information indicates that some private sector comparators have found creative solutions to compensate professional or technical staff, but these comparators are unlikely to reveal these arrangements in commercial wage surveys. As mentioned above, payment of LE Staff in foreign currency is already a prevailing practice among foreign embassies. Under the current policy, paying local staff in bolivars at the official exchange rate essentially subsidizes the Venezuelan government to the detriment of LE staff, a practice that is not consistent with public interest.

¶11. (C) In April 2008, the Embassy legal advisor concluded that the Embassy may legally pay LE Staff salaries in USD in offshore accounts. Mandatory benefits, such as social security and housing benefits, would continue to be paid locally in bolivars. According to several US banking contacts operating in Venezuela, the only requirement to establish a US account from abroad is a valid passport. Out of 189 current employees, all but eight have a valid passport, and these eight are willing to apply for one. Post can work with Charleston on exact procedures. We must be clear, however, that despite the apparent legality of the offshore payment of LE Staff, and the prevalence of that practice among foreign missions, the Venezuelan government could use this policy as a pretext for verbal attacks on the USG.

DETERMINATION OF PUBLIC INTEREST

¶12. (C) Proposed Text of "Determination in the Public Interest"
We propose the following text for signature of Under Secretary of State for Management. Begin proposed text:
"Determination in the Public Interest
Section 408 of the Foreign Service Act states that to the extent consistent with public interest, each compensation

plan shall be based upon prevailing wage rates and compensation practices. Because of Venezuela's persistent and high inflation, LE Staff at Embassy Caracas have suffered a dramatic decline in their purchasing power over recent years. Given Venezuela's economic context (including currency controls and a fixed official exchange rate), paying
LE Staff in dollars would allow them to maintain a just standard of living and save taxpayer dollars over time. The Department hereby determines that it is in the public interest to pay LE Staff in dollars in account established outside Venezuela. We note that many foreign embassies in Venezuela have also adopted this practice." End proposed text.
DUDDY